



# **THE NEW GEOECONOMICS AND LATIN AMERICA**

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# THREE ISSUES

- WHERE MIGHT THE NEW GEOECONOMIC REALITIES CONSTRAIN LATIN AMERICA?
- THE NEW EXTERNAL SHOCKS AND FISCAL POLICY
- GLOBAL IMBALANCES, ARTIFICIAL INTELLIGENCE AND ADJUSTMENT



# **GEOECONOMICS AND LATIN AMERICA**

# **ECONOMIC COERCION AND FRAGMENTATION**

HEGEMONIC POWERS EXERT INFLUENCE ON OTHER COUNTRIES BY THREATENING THE ALTERATION OF FINANCIAL AND TRADE RELATIONSHIPS.

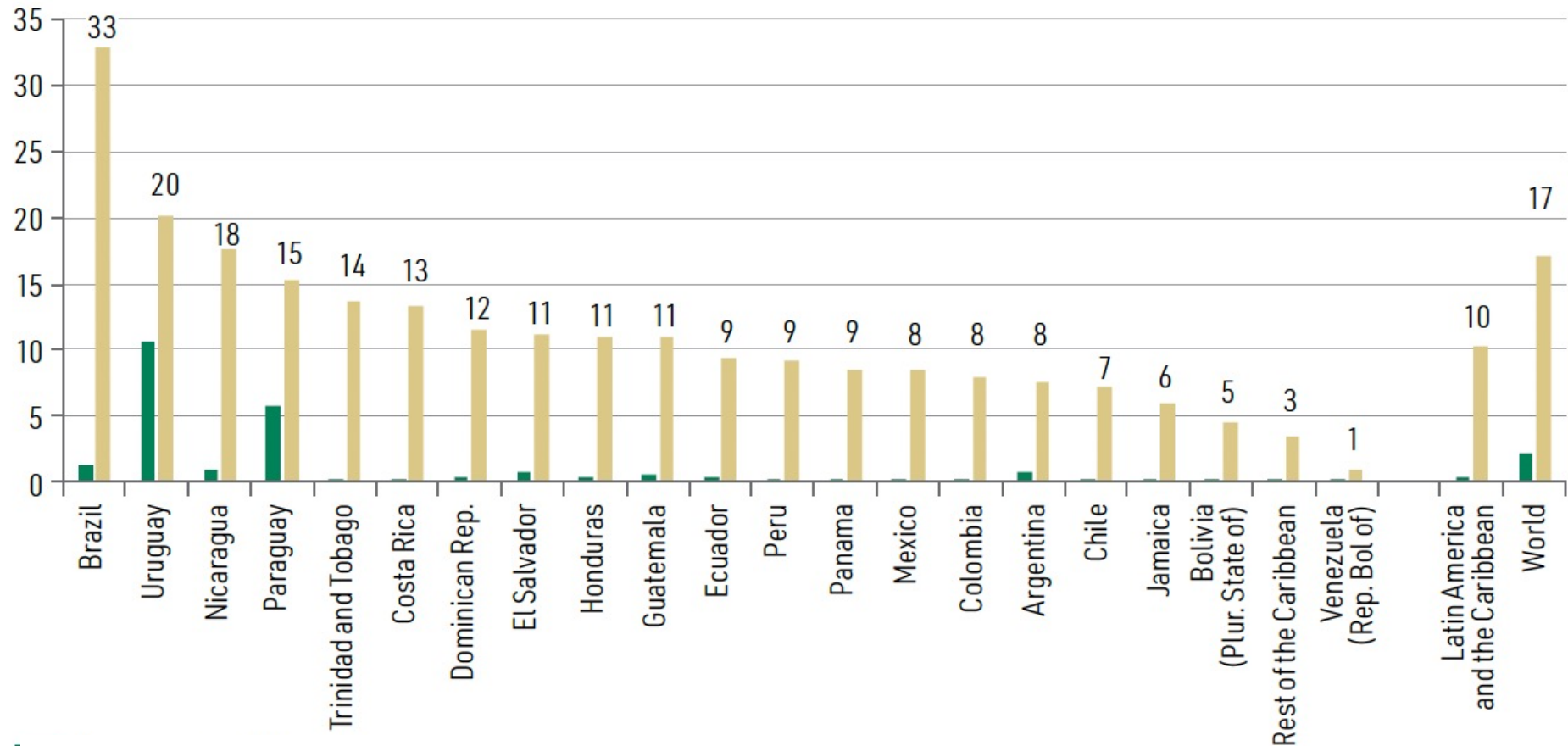
MECHANISMS THAT GENERATE GAINS FROM INTEGRATION, SUCH AS EXTERNAL ECONOMIES OF SCALE AND SPECIALIZATION, ALSO INCREASE THE HEGEMON'S POWER BECAUSE ... THEY MAKE OTHER RELATIONSHIPS POOR SUBSTITUTES FOR THE HEGEMON'S.

OTHER COUNTRIES IMPLEMENT ECONOMIC SECURITY POLICIES TO INSULATE THEMSELVES FROM HEGEMONIC PRESSURE, BUT IN DOING SO CAN INEFFICIENTLY FRAGMENT THE GLOBAL ECONOMY.

**CLAYTON, MAGGIORI AND SCHREGER (2026)**

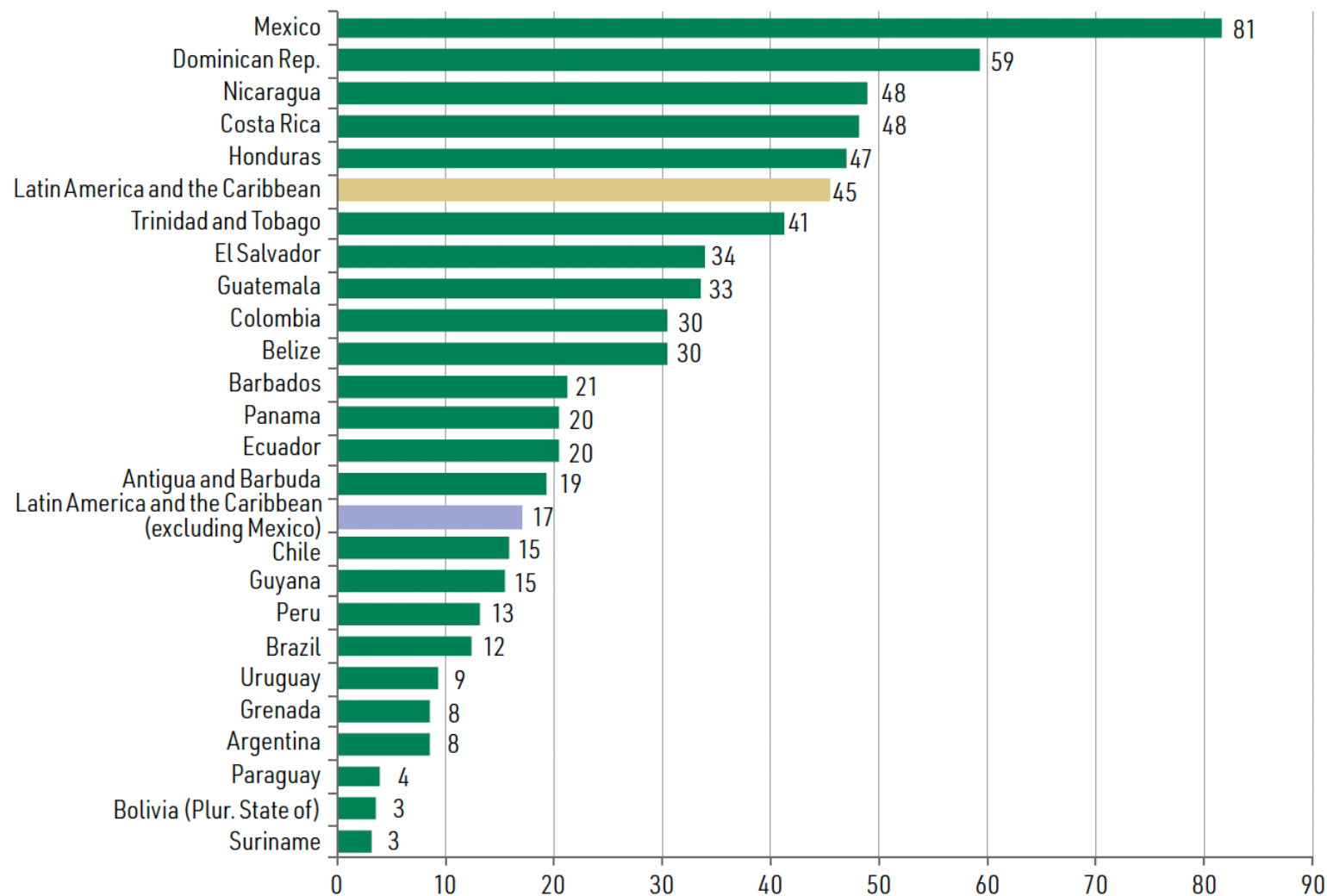
# TARIFFS AS AN INSTRUMENT OF COERCION? LATIN AMERICA

Average US tariff rate on Latin American countries, Jan 2025 and Dec 2025



Source: ECLAC

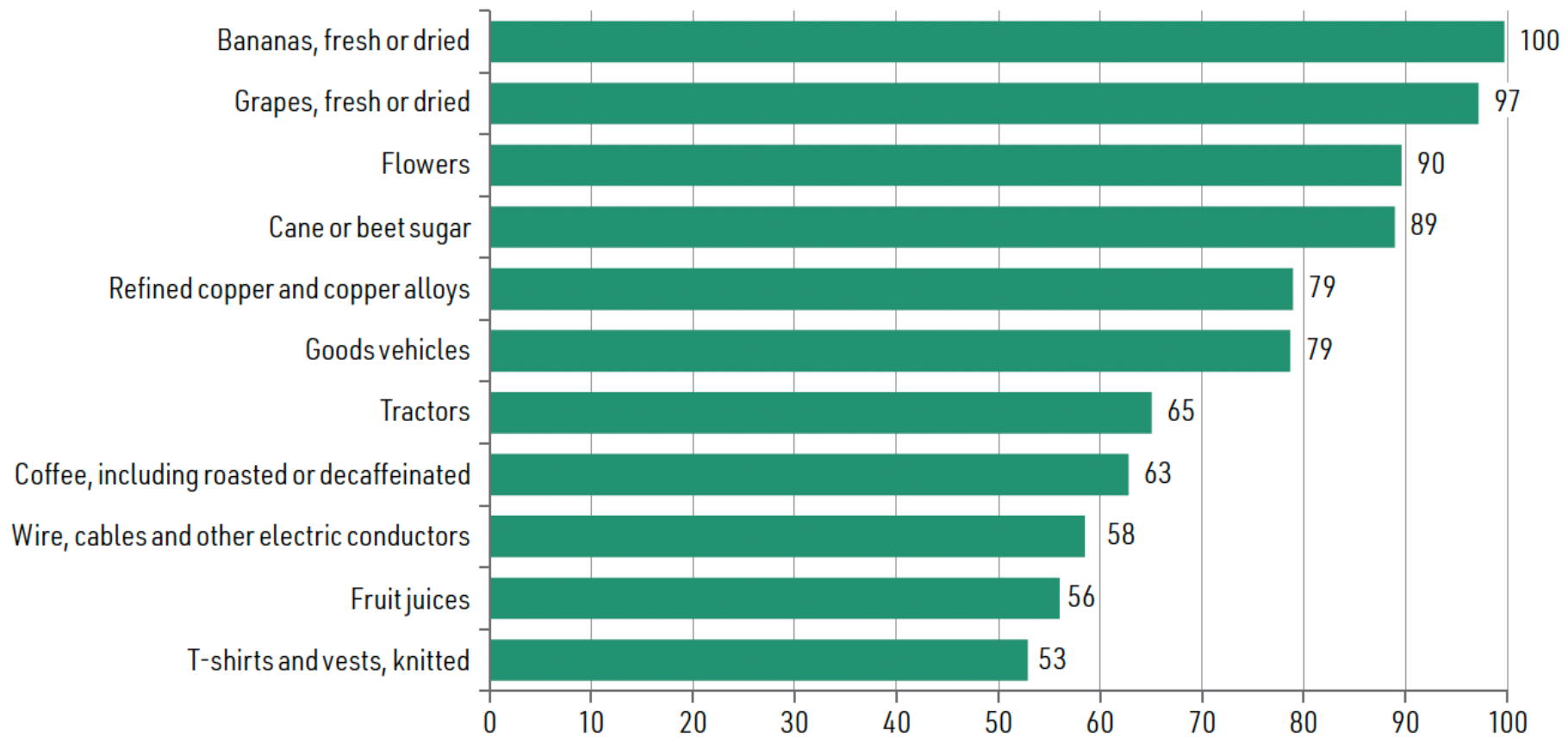
# HOW IMPORTANT IS THE U.S. AS A DESTINATION FOR L.A. EXPORTS?



Source: ECLAC

# IF THESE ARE YOUR EXPORTS, WILL YOU BE FORCED TO CHOOSE SIDES?

US share of selected Latin American exports, 2024



Source: ECLAC



# HOTTER ISSUES

- SUBMARINE CABLES AND COMMUNICATIONS
- OWNERSHIP & CONTROL OF INFRASTRUCTURE
- INVESTMENT SCREENING



# WORRIES FOR GOVERNMENTS

- CHANGES IN RULES OF ORIGIN IN FTAS
- INVOLUNTARY INVESTMENT SCREENING
- FORCED ASSET SALES
- ACCESS TO SATELLITE COMMUNICATIONS
- ACCESS TO CLOUD DATA STORAGE
- ACCESS TO AI RESOURCES AND TECH

# WORRIES FOR CENTRAL BANKS

- EFFECTS OF UNCERTAINTY
- HARD-TO-DAMPEN SUPPLY SHOCKS
- DIMINISHED CAPITAL INFLOWS?
- LOSS OF POTENTIAL FDI?
- CLOUD AND CYBER RISK?
- PAYMENT SYSTEMS RISK?



# **GEOECONOMICS AND FISCAL POLICY**

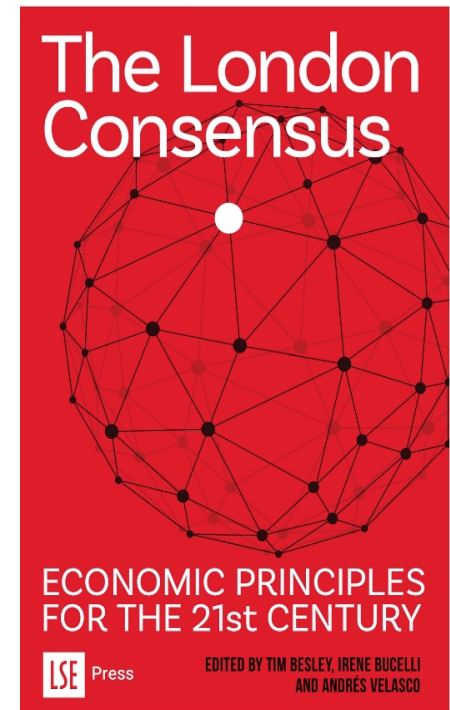
# SPEAKING OF SHOCKS...

- THE CURRENT GEOECONOMIC ENVIRONMENT IS LIKELY TO GENERATE
  - Negative supply shocks (eg oil)
  - Negative terms of trade shocks
  - Negative FDI shocks
  - Shocks to risk appetite
  - Financial and payments shocks
- MONETARY POLICY CANNOT DEAL WELL WITH MOST OR ANY OF THESE
- THE ***DIVINE COINCIDENCE*** BREAKS DOWN
- FISCAL POLICY MUST DO THE HEAVY LIFTING
- AND IT HAS, RECENTLY
  - 2007-09 GFC
  - COVID pandemic
  - Russian invasion of Ukraine

# IMPLICATIONS FOR FISCAL POLICY

REIS AND VELASCO (2025)

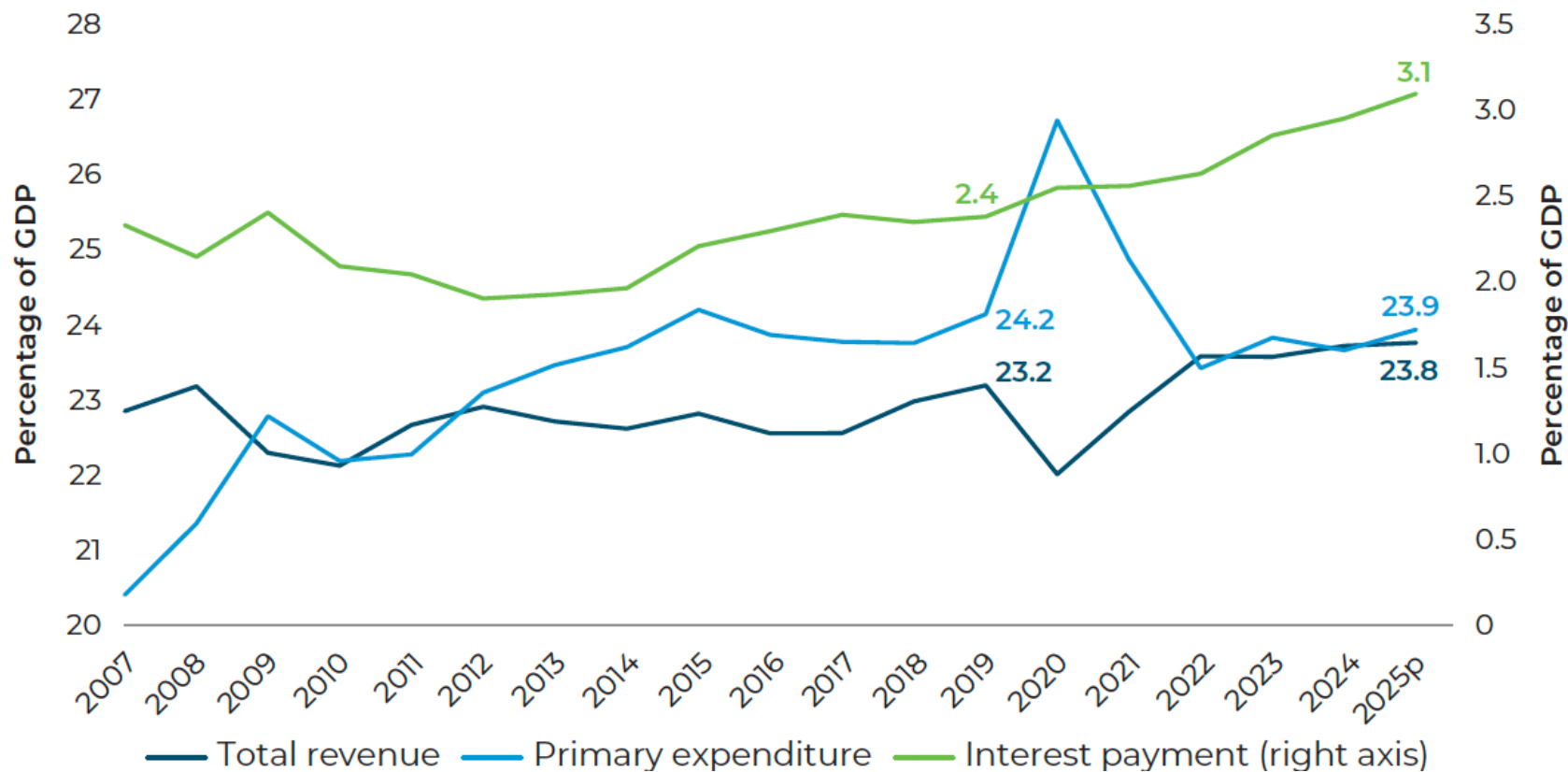
- CLASSIC REASONS FOR FISCAL STABILIZATION
  - Neoclassical consumption smoothing
  - Keynesian aggregate demand management
- NEW REASONS FOR FISCAL ACTIVISM
  - Fiscal policy as market-maker of last resort (GFC)
  - Fiscal policy as insurer of last resort (Covid)
- FOR THIS TO BE FEASIBLE, GOVERNMENT MUST BE ABLE TO BORROW IN BAD TIMES
- WHICH REQUIRES REPAYING IN GOOD TIMES
- AND PRESERVING THE SPECIAL NATURE OF PUBLIC DEBT



# THE HARD PART IS TO MAKE THE ACTIVISM TEMPORARY

- POST PANDEMIC, PRIMARY EXPENDITURE DID FALL
- BUT INTEREST PAYMENTS KEPT RISING
- FISCAL RULES HELP, BUT THEY ARE SOMETIMES NOT ENOUGH

Revenue and expenditure in Latin America and the Caribbean

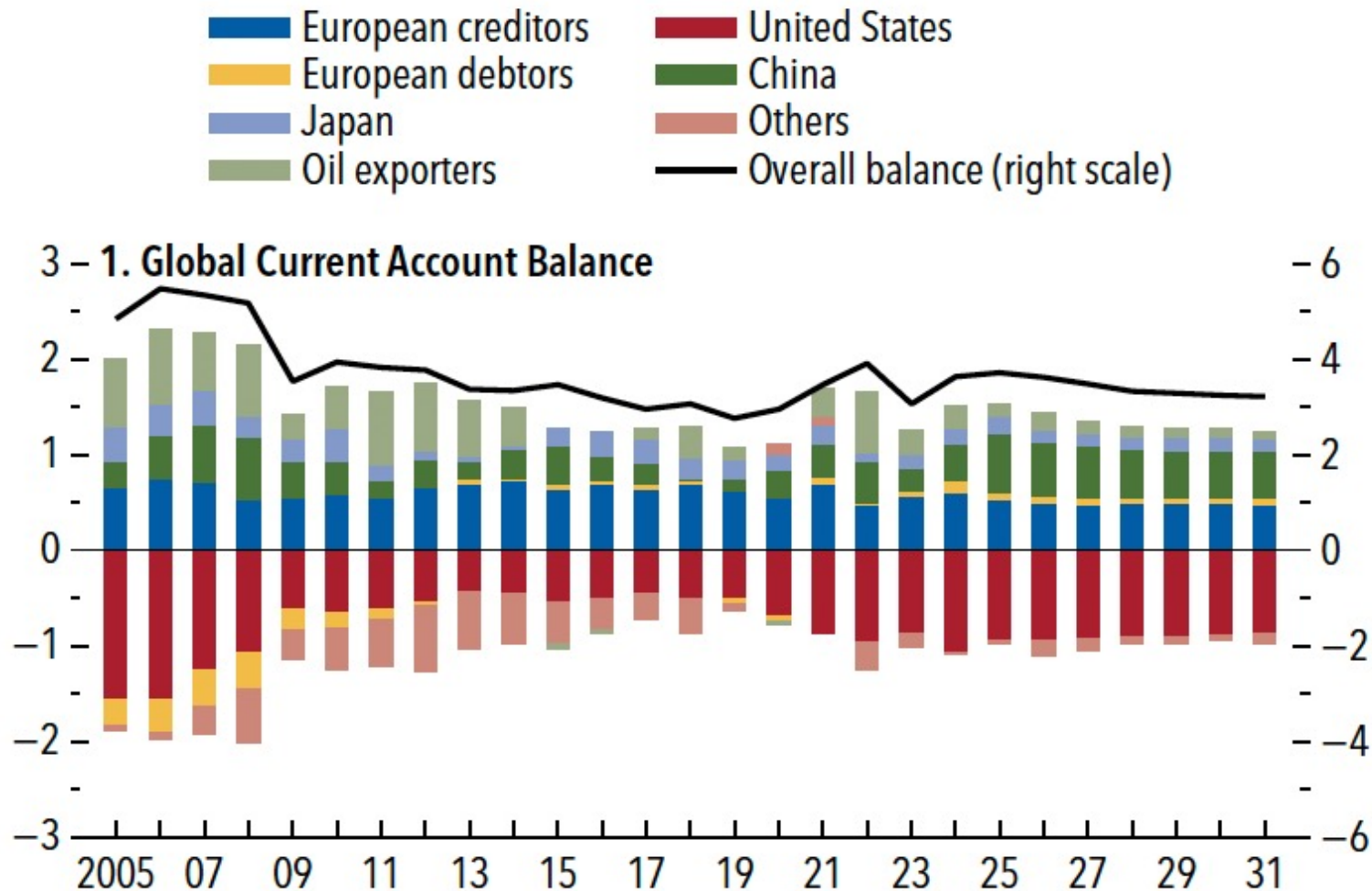


Source: IADB



# **GLOBAL IMBALANCES AND ADJUSTMENT**

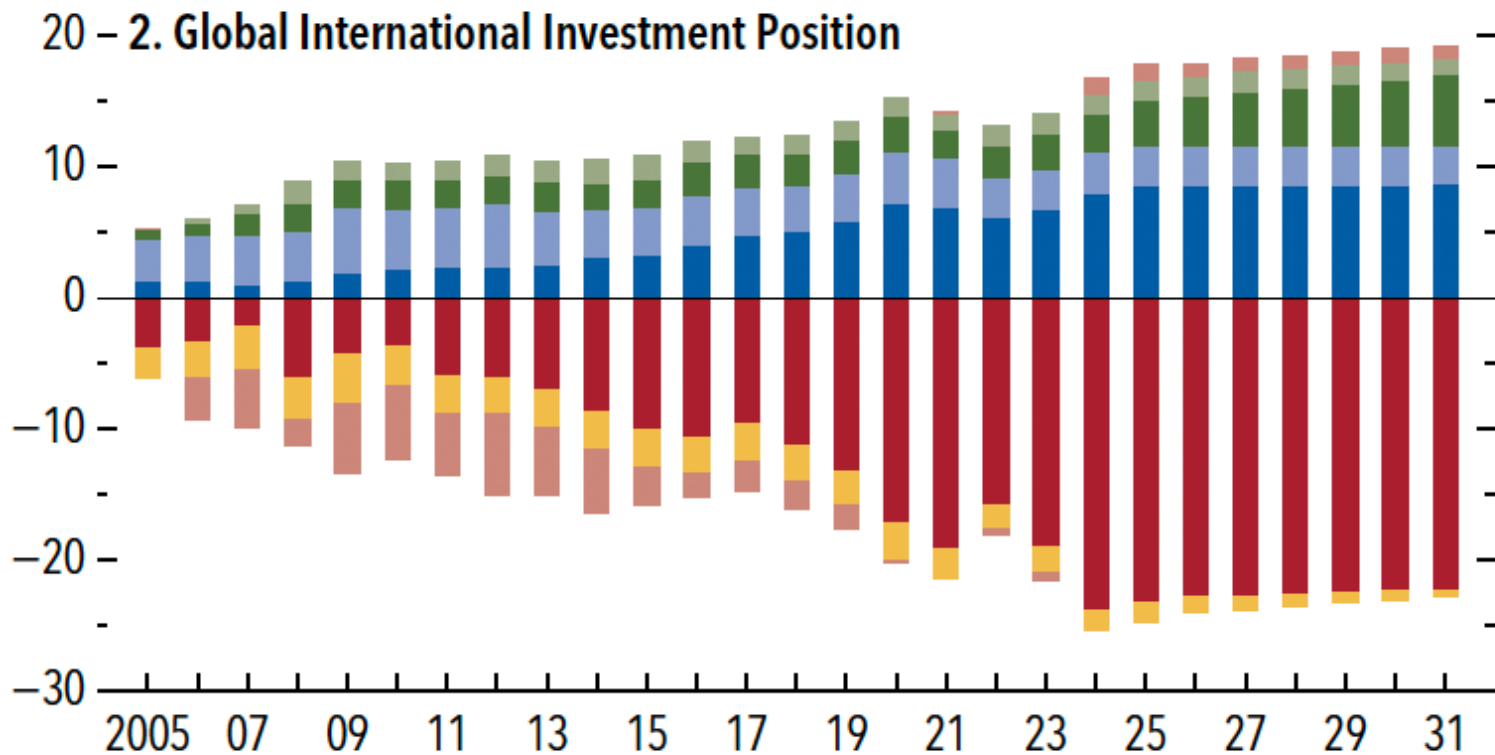
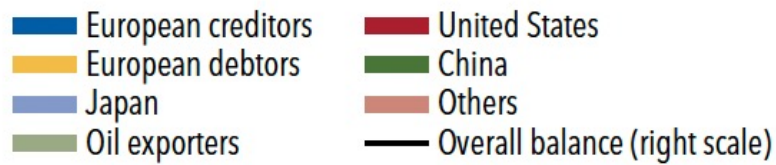
# GLOBAL IMBALANCES ARE BACK



Source: IMF WEO

Rey, Weder di Mauro and Zettelmeyer (2026)  
 IMF (2026), Bai, Gopinath, Rey, Weber (2026)

# DIVERGING INTERNATIONAL INVESTMENT POSITIONS



Source: IMF WEO

# VIEWS ABOUT IMBALANCES

**ITSKHOKI AND MUKHIN (2026)**

- DEMAND
  - Savings glut hypothesis: a rise in global demand for stores of value drove the widening external imbalances in the 2000s
- SUPPLY
  - The global supply of safe assets is concentrated in the United States, which absorbs the bulk of global savings and runs a persistently negative current account

# ONE NEW ELEMENT IN THE STORY OF IMBALANCES

HAUSMANN AND VELASCO (2026)

- TECH- AND AI-DRIVEN EXPORT BOOM
- TAKE THE 10 LARGEST TECH FIRMS AND THEIR CURRENT SHARE PRICES
- ASSUME THAT BY 2036 THESE FIRMS
  - Trade at price-earnings ratios of 20
  - Earn net profit margins of 20%
  - Obtain 65% of their incremental revenue abroad
- THEN, BY 2036 THESE FIRMS
  - Will generate ***\$2.4 trillion*** in additional annual exports
  - That is roughly ***equal to all US exports of goods*** today and ***over twice the US current account deficit.***

# WHAT IS THE EFFECT ON THE US CURRENT ACCOUNT AND GLOBAL IMBALANCES?

- IMF WEO
  - “Stronger productivity growth in the United States could enhance US competitiveness in technology-related services and improve the country’s trade balance. But positive wealth effects that boost domestic demand, together with sustained capital inflows driven by higher returns, would dominate and keep the US current account deficit wider than that observed during the decade preceding the COVID-19 pandemic.”
- ALTERNATIVELY,
  - If the positive shock is transitory, US consumers should want to save part of it
  - That would be associated with a large real appreciation of the dollar
  - The net outcome would depend US fiscal policy
  - Is there a scenario where IA “solves” global imbalances?



**THANKS!**